CITY OF REDONDO BEACH, CALIFORNIA
STATEMENT OF INVESTMENT POLICY FISCAL YEAR 2020

INTRODUCTION

This statement is intended to establish the policies for prudent investment of the City's funds, and to provide guidelines for suitable investments.

It is the policy of the City of Redondo Beach ("City of Redondo Beach" or "City") to invest public funds not required for immediate day-to-day operations in safe and liquid investments having a market-average rate of return while conforming to all state statutes governing the investment of public funds.

The ultimate goal is to enhance the economic status of the City while protecting its funds.

The investment policies and practices of the City of Redondo Beach are based upon Federal, State, and local law and prudent money management. The primary goals of these policies are:

1. To assure compliance with all Federal, State and local laws governing the investment of monies under the control of the City Treasurer.

2. To maintain the principal value of assets entrusted to this office and provide adequate liquidity to meet operating expenditures.

3. It is recognized that within a well-diversified portfolio, at any particular point in time, that security valuations are impacted by changes in interest rates and economic conditions. Accordingly, securities may at times be worth less than original purchase price based on market fluctuations. Recognizing these factors, it is the expressed intention of our investment policy to hold all investments to maturity to ensure the return of all invested principal dollars. Securities shall generally be held until maturity with the following exceptions:
   - A security with declining credit may be sold early to minimize loss of principal.
   - A security swap may be executed if it will increase the quality, yield, or target duration in the portfolio.
   - Liquidity needs of the City require that the security be sold.

4. In addition, through the maintenance of sufficient diversification of investments, the forced liquidation of investments at a loss will be avoided, if possible. It is further understood, however, that in the event of the need for a forced liquidation of investments to meet unplanned or unanticipated cash flow demands, a potential loss of investment principal may potentially occur.

5. Within constraints of safety and liquidity, generate a market rate of return within the parameters of this Statement of Investment Policy and the guidelines for suitable investments.

I. SCOPE

In accordance with the City of Redondo Beach Charter Section 11.1, the City Treasurer is authorized to invest and reinvest the City's funds according to State law; provided, however, that the City Council may adopt investment guidelines by resolution.

This investment policy applies to all financial assets, investment activities and debt issues of the City of Redondo Beach (including funds, which are invested by trustees appointed under debt trust indentures, with direction from the City Treasurer). This policy covers the investment activities of all contingency reserves and inactive cash balances under the direct authority of the City.

All monies entrusted to the City Treasurer will be pooled in a diversified portfolio. The Investment Pool or "Portfolio" will be referred to as the "Pool" throughout the remainder of this document. The City Treasurer and staff will observe, review and react to changing conditions that affect the Pool.

Investments made on a pooled basis include investments of the City and its component units, including the City of Redondo Beach, the Successor Agency to the City Redevelopment Agency, the Parking Authority, the Public Financing Authority, and the Housing Authority. The City's Comprehensive Annual Financial Report identifies the fund types incorporated under the City's investment pool as follows:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise Funds
- Internal Service Funds
- Fiduciary-Agency Funds
- Any new funds created by the City Council, unless specifically exempted

All debt issue proceeds will be invested in accordance with the associated trust indenture, and in such a manner that facilitates arbitrage rebate calculations.

In determining the investment of funds associated with bonded debt issues, debt proceeds will be invested in accordance with the most restrictive investment requirements contained within either the City's investment policy or the associated bond trust indenture.

Excluded from the scope of the City Treasurer's Investment responsibilities are investments related to funds dedicated for Retirement purposes and Deferred Compensation investment funds.

II. INVESTMENT PHILOSOPHY - PRUDENCE

Management of the City's investments is governed by the Prudent Investor Standard as set forth in the California Government Code section 53600.3:

> "Except as provided in subdivision (a) of Section 27000 .3, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging , selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the Agency, that a prudent person acting in a like capacity

and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Agency . Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

Prior to investment, the City Treasurer or designee shall complete an investigation of the pool/fund.

III. **OBJECTIVES**

A. **Safety of Principal**

Safety of Principal is the foremost objective of the City of Redondo Beach. Each investment transaction shall seek to ensure that capital losses are avoided whether from institution default or broker-dealer default. The City shall seek to preserve principal by mitigating the two types of risk, credit risk and market risk.

1. **Credit Risk** Credit risk, defined as the risk of loss due to failure of an issuer of a security, shall be mitigated by investing in only very safe institutions and by diversifying the Pool so that the failure of any one issuer would not unduly harm the City's cash flow.

2. **Market Risk** The risk of market value fluctuations due to overall changes in the general level of interest rates shall be mitigated by limiting the weighted average maturity of the City's Pool to no greater than 2.5 years in a diversified Pool.

B. **Liquidity**

Liquidity is the second most important objective of the City of Redondo Beach. It is important that an investment contain the feature of being easily sold at any time with a minimal risk of loss of some portion of principal or interest. The City may experience unexpected or unusual circumstances that result in some investments needing to be sold to meet a contingency. Therefore, the City maintains a high degree of liquidity in its pool. To the extent possible, investments will be made so that maturities are compatible with cash flow requirements. To ensure that sufficient investment Pool liquidity is maintained at all times, a minimum of twenty-five percent (25%) of the overall investment Pool's investments will be maintained in liquid investments in (a) the State Local Agency Investment Fund (LAIF), (b) allowable mutual funds as set forth in Section V.I, or (c) securities with a remaining maturity of one year or less, and (d) a combination. No single investment shall be purchased with a term to maturity at the date of purchase that exceeds 5 years, except as special circumstances dictate and with the expressed approval of the City Council.

C. **Maturity Matrix**

Maturities of investments will be selected based on liquidity requirements in order to minimize interest rate risk and maximize earnings. Current and expected yield curve analysis will be monitored, and the Pool will be invested accordingly. As a general investment guideline, the following percentages of the Pool should be utilized in the selection of investment maturity sectors:

Maturity Range	Suggested Percentage
Less than 1 year	Minimum of 25%
Less than 3 years	Minimum of 50%
3 years to 5 years	Maximum of 50%
Over 5 years	City Council Authorization Required

D. Diversification

The City's Pool will be diversified to avoid incurring unreasonable and avoidable risks. The investments will be diversified by security type and institution. Allowable limits for specific securities types and institutions are delineated in paragraph VI of this Investment Policy. The aggregate single institution limit of commercial paper, medium term corporate notes, certificates of deposits over the FDIC limit, and banker's acceptances, shall not be greater than five percent (5%) of the Pool. In accordance with Section III.F, maturities shall be laddered to reduce interest rate risk. In a diversified portfolio, occasional measured losses must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

E. Performance Standard/Benchmark

Investment return becomes a consideration only after the basic requirements of investment safety and liquidity have been met. The City's Pool shall be designed to attain a market-average rate of return through economic cycles. Because the Pool is designed to operate on a 'hold-to-maturity' premise (or passive investment style) and because of the safety, liquidity, and yield priorities, the basis that will be used by the City Treasurer in the periodic purchase of investment instruments to determine whether market yields are being achieved shall be the following book return performance standard and benchmark: The 30 month moving average of the 0-5 Year Treasury Index, using month end values.

F. Timing of Maturities and Maximum Maturities

Investment maturities shall be consistent with the cash flow requirements of the City. Investment maturities will also be timed so that a disproportionate number of investments will not mature simultaneously. In consideration of the timing of investment maturities, the City Treasurer shall select investment maturities utilizing a "laddering" maturity strategy, ensuring a sufficient, well balanced mix of investment maturities, on a regular basis, consistent with the operating cash flow requirement of the City. The maximum maturity of any security shall not exceed five years unless authorized by the City Council.

IV. INVESTMENT COMMITTEE AND REPORTING

A. Budget and Finance Commission

The City's Budget and Finance Commission, within the advisory powers assigned to the Commission by Ordinance, shall serve in an independent investment advisory capacity, providing oversight of the investment activities of the City Treasurer.

The Budget and Finance Commission shall review on a quarterly basis reports submitted by the City Treasurer analyzing the City's Pool and Investment market trends. With respect to the Commission's investment oversight responsibilities, the intended purpose of the Budget and Finance Commission is to serve in an advisory capacity to the City Treasurer and City Council. Serving in this advisory capacity, the Budget and Finance Commission will provide an important oversight role to the function of City Treasurer's management of the City's Pool, ensuring that the investment decisions of the City Treasurer are made in compliance with the established investment policy guidelines contained within this statement of Investment Policy. The Budget and Finance Commission is not authorized to direct investment decisions, or select individual investment advisors, brokers, or dealers.

B. Monthly and Quarterly Reporting

The City Treasurer shall render a monthly report to the City Council showing the type of investment, issuing institution, date of maturity, amount of deposit, current market value for all securities, rate of interest, percentage of the Pool representing each investment category, transactions for the period, the ability of the City to meet the expenditure requirements for the next six months or provide and explanation why requirements may not be met, comments with respect to the current fixed income marketplace and current economic conditions impacting the value of fixed income investments, and such data as may be required by the City Council. The City Treasurer shall make quarterly presentations to the Budget and Finance Commission and to the City Council analyzing the Pool and investment market trends.

C. Review of Investment Portfolio

The securities held by the City must be in compliance with Section VI Authorized Investments at the time of purchase. Because some securities may not comply with Section VI Authorized Investments subsequent to the date of purchase, the Treasurer shall at least quarterly review the portfolio to identify those securities that do not comply. The Treasurer shall report to the Budget and Finance Commission, should one exist, major and critical incidences of noncompliance identified through the review of the Pool.

V. ETHICS AND CONFLICTS OF INTEREST

All parties involved in the City's investment process shall seek to act responsibly as custodians of the public trust. The City Treasurer, or if appropriate, the Deputy City Treasurer, shall avoid any transaction that might impair public confidence in the City's ability to govern and manage the investment of public funds in an effective manner, including but not limited to, personal business activity that would impair the City Treasurer or Deputy City Treasurer's ability to make an impartial investment decision. The City Treasurer, Deputy City Treasurer, or other official charged with the responsibility of making investment decisions shall have no vested interest in any investment being made involving public funds of the City, and shall gain no financial benefit from such investment decisions.

The City Treasurer and Deputy City Treasurer shall disclose to the City Council any material interests in the financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City of Redondo Beach.

VI. AUTHORIZED INVESTMENTS

The City shall not enter into any investment transaction that might impair public confidence in the Redondo Beach City government. The City is governed by the California Government Code, Sections 53600 et seq. Except as otherwise provided herein, the maximum maturity period for any of these authorized investments is five years from the date of the original purchase of the investment. Within the context of these limitations, the following investments are authorized, as further limited herein. The percentage limitations of authorized investment component categories within this investment policy represent percentages following the provision of sufficient Pool liquidity achieved by maintaining at all times a minimum of twenty-five percent (25%) of the overall Pool's investments in (a) the State Local Agency Investment Fund (LAIF), (b) allowable mutual funds as set forth in Section V.I, (c) securities with a remaining maturity of one year or less, and (d) a combination.

A. United States Treasury Obligations — No Limit

United States Treasury Bills, Notes and Bonds, certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for payment of principal and interest. This investment is both safe and liquid. There is no percentage limitation of the Pool that can be invested in this category, although a five-year maturity limitation is applicable.

B. United States Agency Obligations — No Limit

Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal Home Loan Mortgage Corporation (FHLMC), and the Federal National Mortgage Association (FNMA) and those insured by the Federal Housing Administration (FHA). The "prudent investor" rule shall apply for a single agency name, as U.S. Government backing is implied rather than guaranteed. There is no percentage limitation of the Pool that can be invested in this category; although, no greater than forty percent (40%) of the Pool shall be invested with any one issuer.

C. Banker's Acceptances — Maximum of 40%

Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as banker's acceptances. Banker's acceptances purchased may not exceed 180 days to maturity or forty percent of the Pool. No more than five percent of the Pool may be invested in banker's acceptances issued by any one commercial bank. Only those banker's acceptances eligible for purchase by the Federal Reserve System meet eligibility requirements for investment by the pool. Investments in Banker's Acceptances shall be placed in instruments ranked within the top two rating categories by two of the three largest rating services. No more than five percent (5%) of the Pool may be invested in banker's acceptances issued by any one entity.

D. Time Deposits No Limit

Time Deposits are issued by depository institutions against funds deposited for a specific length of time. Time Deposits include instruments such as deposit notes. They are distinct from Certificates of Deposit (CDs) in that interest payments on time deposits are calculated in a manner similar to that of corporate bonds whereas interest payments on CDs are calculated similar to that of money market instruments.

The City may invest in non-negotiable time deposits collateralized in accordance with the California Government Code, in those banks and savings and loan associations that meet the requirements for investment in non-negotiable time deposits. Despite the fact that time deposits are not liquid, there is no restriction by the California Government Code on the percentage of bank/time deposits in the Pool. As such, one hundred percent of the Pool may be invested in this category. All investments in time deposits must be issued by a financial institution whose performance has been reliable, and whose safety rating meets the standards established by the City Treasurer. All investments in time deposits must be properly collateralized in accordance with Section 53652 of the California Government Code. The City Treasurer will periodically monitor, on a discretionary yet diligent basis, the operating performance of all financial institutions holding City time deposits, to ensure compliance to collateralization requirements.

E. Negotiable Certificates of Deposit Maximum of 30%

Negotiable certificates of deposit issued by a nationally or State-Chartered Bank or a State or Federal Savings and Loan Association. Purchases of FDIC insured negotiable certificates of deposits will be insured up to the FDIC limit, which is currently $250,000. No more than $250,000 of the Pool may be invested in negotiable certificates of deposit in any one bank or savings and loan association. Negotiable Certificates of Deposits maximum thirty percent (30%) limit is in aggregate with Certificate of Deposit Placement Service investments.

F. Commercial Paper Maximum of 25%

Commercial Paper ranked "P1" by Moody's Investor Services or "A1" or higher by Standard and Poor's, and issued by a domestic corporation having assets in excess of $500,000,000 and having an "A" or better rating on its long term debentures as provided by Moody's or Standard and Poor's. Purchases of eligible commercial paper may not exceed twenty-five percent (25%) of the Pool or have a term to maturity which exceeds 270 days. No more than five percent of the Pool may be invested in commercial paper issued by any one corporation.

G. Local Agency Investment Fund Maximum of $65 million per account

The City may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer for the benefit of local agencies up to the $65 million maximum permitted by State law.

H. Medium-Term Notes Maximum of 30%

Medium-Term Notes are all corporate and depository institution debt securities, with a maximum remaining maturity of five years issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. The minimum quality credit rating requirements of Medium Term Notes by California Government Code is "A". City investment policy requires that at time of purchase, Medium Term Notes eligible for investment shall be rated in a rating category of "A" by S&P or Fitch, or "A2" by Moody's Investors Services or its equivalent or better by a nationally recognized rating service. In the event that prior to maturity any Medium Term Note investment experiences a credit rating downgrade to a level below the City's required credit rating, the City Treasurer will initiate a thorough review of the credit quality of the downgraded Medium Term Note to determine the prudency of selling the note prior to its maturity.

No more than thirty percent (30%) of the Pool may be invested in medium- term notes. No more than five percent (5%) of the Pool may be invested in notes issued by one corporation or depository institution. In the event that the percentage of Medium Term Note investments within the Pool temporally exceeds the percentage limitation of this investment policy as dictated by California Government Code, the City Treasurer will take prudent action within 30 days to bring the percentage of the Pool invested in Medium Term Notes into compliance with the percentage limitation of this investment policy.

I. Mutual Funds Maximum of 15%

Shares of beneficial interest issued by diversified management companies, otherwise known as mutual funds, as defined in Section 23701(m) of the California Revenue and Taxation Code, investing in the securities and obligations as authorized by subdivisions (A) to (L), inclusive, of that section and which comply with the investment restrictions (California Government Code, commencing with Section 53630), companies shall either:

1. Attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services, or

2. Have an investment adviser registered with the Securities and Exchange Commission with not less than five years experience investing in the securities and obligations as authorized by subdivisions (a) to (m), inclusive and with assets under management in excess of five hundred million dollars ($500,000,000). The purchase price of shares of beneficial interest, (mutual funds) purchased pursuant to this subdivision shall not include any commission that these companies may charge

3. Prior to selection of investments in any authorized mutual funds, the City Treasurer will exercise due diligence in ensuring that all investments in mutual funds meet the investment qualification requirements of the California Government Code.

No more than fifteen percent (15%) of the Pool may be invested in mutual funds, while no more than ten percent (10%) of the Pool may be invested in any one mutual fund.

K. Certificate of Deposit Placement Service Maximum of 30%

AB 2011 added California Government Code Sections 53601.8 and 53635.8, which expanded Local Agencies' permissible investments to include the use of private Certificate of Deposit placement services. AB 2011 provided Local Agencies' with an investment tool that minimizes monitoring and administration of their surplus cash investments while allowing smaller local banks to accept deposits that they currently are unable to because of collateralization requirements. Rather than dealing potentially with multiple banks to ensure full FDIC insurance coverage for deposits, AB 2011 provided Local Agencies with a means to work with one bank for non-negotiable Certificate of Deposit investments. The statute limits total Pool investment in Certificates of Deposit to thirty percent (30%) of combined negotiable Certificates of Deposit as authorized under California Government Code Section 53601 (h).

L. Supranationals Maximum of 15%

United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated "AA" or better by at least one of the three large rating agencies, Moody's, Standard & Poor's, or Fitch, and shall not exceed fifteen percent of the Pool. No greater than five percent (5%) of the Pool shall be invested in any one issuer.

M. Authorized yet Currently Unutilized Investments

In managing the Pool, the City Treasurer does not currently utilize the following types of investments that are authorized by California Government Code: Local Agency Bonds; State Obligations of California and other States; California Local Agency Obligations; Repurchase Agreements; Reverse Repurchase Agreements; Mortgage Pass through Securities; and County Pooled Investment Funds. It is the policy of the City of Redondo Beach not to use the above listed types of investments.

N. Collateralized Bank Deposits No Limit

Deposits that are at all times secured by a valid first priority security interest in securities of all types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

P. Summary of Maximum Percentage Limitations of Investments, by Investment Type

Recognizing maintenance of the minimum investment liquidity requirements as addressed within section III (B) of this Investment Policy, the following summary of maximum percentage limitations by investment instrument is established for the City's Pool. The percentage limitations of authorized investment component categories within this investment policy represent percentages following the provision of sufficient Pool liquidity.

Investment Type	Maximum Percentage	Maximum Issuer %	Maximum Maturity	CA Government Code Section
U.S. Treasury Obligations	No limit	No limit	5 years	Cal. Gov't Code § § 53601 (b), 53651 (a)
U.S. Agency Obligations	No limit	40%	5 years	Cal. Gov't Code § 53601 (f)
Bankers Acceptances	40%	5%	180 days	Cal. Gov't Code § 53601 (g)
Time Deposits	No limit	No limit	5 years	Cal. Gov't Code § § 53601, 53638
Negotiable Certificates of Deposit	30% (combined with CD Placement Service)	$250,000	5 years	Cal. Gov't Code § §53601 (i)
Commercial Paper	25%	5%	270 days	Cal. Gov't Code § 53601 (h)
Local Agency Investment Fund	Per State Limit - $65 million per Account	Per State Limit - $65 million per Account	N/A	Cal. Gov't Code § 16429.1
Medium Term Corporate	30%	5%	5 years	Cal. Gov't Code § 53601 (k)
Mutual Funds	15%	10%	N/A	Cal. Gov't Code § 53601 (l)
Certificate of Deposit Placement Service	30% (combined with CDs)	30%	5 years	Cal. Gov't Code § § 53601.8 53635.8
Supranationals	15%	5%	5 years	Cal. Gov't Code § 53601 (q)
Collateralized Bank Deposits	No Limit	No Limit	N/A	Cal. Gov't Code § § 53651 and 53652 (a)

In the event, the percentage of investments within any of the authorized types of investments within the Pool temporally exceeds the percentage limitation of this investment policy as dictated by the California Government Code, the City Treasurer will take prudent action within 30 days to bring the percentage of the type of investment that temporally exceeds the percentage limitation into compliance with the percentage limitation of this investment policy.

Q. Legislative Changes

Any State of California legislative action, that further restricts allowable maturities, investment type or percentage allocations, will be incorporated into the Investment Policy and supersede any and all previous applicable language.

VII. UNAUTHORIZED INVESTMENTS

A. Ineligible Investments — Prohibited

Ineligible Investments are those that are described herein, including but not limited to common stocks, long term (over five years to maturity) notes and bonds, derivative based instruments, inverse floaters, futures and options, interest-only strips that are derived from a pool of mortgages, securities with high price volatility or limited marketability, and any maturity that could result in zero interest accrual if held to maturity, are prohibited from use in the Pool.

VIII. COLLATERALIZATION

Investments in time certificates of deposits shall be fully insured up to $250,000 by the Federal Deposit Insurance Corporation or the Federal Savings & Loan Insurance Corporation, as appropriate. Investments in time certificates of deposit in excess of $250,000 shall be properly collateralized. Section 53652 of the California Government Code requires that the depository pledge securities with a market value of at least ten percent (10%) in excess of the City's deposit as collateral in government securities, and fifty percent (50%) in excess of the deposit as collateral in mortgage pools. Section 53649 of the California Government Code specifies that the City Treasurer is responsible for entering into deposit contracts with each depository. Investments held with Third Parties holding collateral for the investment shall be properly collateralized in accordance with collateralization requirements of the California Government Code.

IX. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The City shall transact business only with nationally or state chartered banks, federal or state savings and loan institutions, and registered primary investment securities dealers. The purchase by the City of any investment other than those purchased directly from the issuer, shall be purchased either from an institution licensed by the State as a broker-dealer, as defined in Section 25004 of the California Corporations Code, who is a member of the Financial Industry Regulatory Authority (FINRA), or a member of a Federally regulated securities exchange, a National or State-Chartered Bank, a Federal or State Association (as defined by Section 5102 of the California Financial Code), or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank.

To continue to maintain broker/dealers with quality services, expertise, and credit worthiness, the City Treasurer may, on a selective basis, expand the approved list of primary dealers to include "qualified regional" dealers.

A "qualified regional" dealer must demonstrate the following requirements:

- The "qualified regional" firm must be able to demonstrate their services and/or expertise is not currently being provided by a primary broker/dealer and will specifically and immediately benefit the City.

- In addition to qualifying under the Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule), the regional dealer shall not self-clear securities. The clearinghouse through which all transactions are cleared and settled has a minimum investment grade rating of A or better by S&P or Moody.

- The representatives chosen to work with the City Treasurer are institutional brokers familiar with and experienced in the specific needs of California public funds. "Familiar" implies an institutional broker who spends the majority of their time and effort working with public funds.

All institutions which the City Treasurer wishes to do business shall be investigated to determine if they are adequately capitalized, have pending legal action against the firm or the individual broker, are registered with FINRA, make markets in the securities appropriate to the City's needs, and agree to abide by the conditions set forth in the City of Redondo Beach's Investment Policy.

The City Treasurer shall annually send a copy of the current Investment Policy to all broker/dealers approved to do business with the City. Confirmation is required of broker dealers of receipt of this policy and shall be considered evidence that the dealer understands the City's investment policies and intends to sell the City only appropriate investments authorized by this investment policy.

To further ensure that investments are purchased only through well established, financially sound institutions, the City Treasurer shall maintain a list of financial institutions and brokers approved for the conduct of investment transactions. All financing institutions and brokers who desire to become qualified bidders for investment transactions will be given a copy of the City's Investment Policy, and in turn must supply the City Treasurer with the following:

- Current audited financial statements (within 120 days of Fiscal Year End).
- Depository contracts, as appropriate.
- A copy of the latest FDIC call report or the latest FHLB report, as appropriate
- Proof that commercial banks, savings banks, or savings and loan associations are state or federally chartered.
- Proof that brokerage firms are members in good standing on a national securities exchange.
- Proof of State registration.
- Trading resolution.
- Completed Broker/Dealer Questionnaire.
- Certification of having read the City's investment policy and depository contracts.

Commercial banks, savings banks, and savings and loan associations must maintain a minimum net worth to asset ratio of three percent (3%) (total regulatory net worth divided by total assets), and must have had a positive net earnings for the last reporting period.

A list of qualified brokers from which the City may purchase investments will be submitted annually by the City Treasurer for approval by the City Council as part of the annual review of investment strategy.

See EXHIBIT A regarding broker/dealers utilized by the investment advisor.

X. PORTFOLIO MANAGEMENT ACTIVITY

The investment program shall seek to augment returns consistent with the intent of this policy, identified risk limitations and prudent investment principals. These objectives will be achieved by use of the following strategies:

A. **Active Portfolio Management--**Through active fund and cash flow management taking advantage of current economic and interest rate trends, the pool yield may be enhanced with limited and measurable increases in risk by extending the weighted maturity of the total pool.

B. **Portfolio Maturity Management--**When structuring the maturity composition of the pool, the City shall evaluate current and expected interest rate yields and necessary cash flow requirements. It is recognized that in normal market conditions longer maturities produce higher yields. However, the securities with longer maturities also experience greater price fluctuations when the level of interest rates change.

C. **Security Swaps--**The City may take advantage of security swap opportunities to improve the overall pool yield. A swap which improves the pool yield may be selected even if the transactions result in an accounting loss. Documentation for swaps will be included in the City's permanent investment file documents.

D. **Competitive Bidding--** To ensure that the purchase of City investments is obtained in the most cost effective and efficient manner, the City Treasurer will encourage competitive bidding for City investment transactions. On an annual basis, the City Treasurer will accept applications from qualified members of the investment broker-dealer community interested in bidding on City investment instruments. The City Treasurer shall establish, on an annual basis, a limited array of qualified broker-dealers to serve the City's investment opportunities. Selection criteria for inclusion on the City's annual list of broker-dealers will be based upon merit, expertise, and performance.

Competitive bidding on individual investment transactions is required on all transactions except those pertaining to "new issue" securities. A new issue security denotes a security that is originally brought to market. Investments in "non-new issue" securities, and the sale of all securities, will require the competitive bid of at least two bidders from the approved list of broker- dealers.

Competitive bidding for security swaps is also suggested, however, it is understood that certain time constraints and broker inventory limitations exist which would not accommodate the competitive bidding process. If a time or inventory constraining condition exists, the pricing of the swap should be verified to current market conditions and documented for auditing purposes.

Details of investment transactions involving competitive bidding will be included in the City Treasurer's quarterly report provided to the City Council and the Budget and Finance Commission.

To ensure the accurate and timely processing, clearance, and settlement of all City Investments, the City Treasurer shall maintain an Investment Procedures Manual. This manual provides current details with respect to operational procedures associated with the placement and clearance of all City Investments. To ensure the accuracy and timeliness of this Investment Procedures Manual, the manual will be reviewed on an annual basis by the City's Independent Auditors.

E. **Registered Investment Advisor Service--** Federal and State Regulation: Investment Advisors with assets under management of $25 million to $100 million or more are registered by the Securities and Exchange Commission (SEC), under the Investment Advisers Act of 1940 (Act). The Act requires investment advisors to file an initial application, known as the "Uniform Application for Investment Advisor Registration" or "Form ADV," with the SEC. They also must file an annual updating amendment, as well as an amendment any time a significant change has occurred at the firm. The

SEC requires investment advisors to maintain extensive records, and has the authority to sanction advisors who break the law or rules established under the Act. The SEC generally conducts routine inspections of advisors' records about once every five years, and may initiate an inspection on the basis of an investor complaint. Advisors registered with the SEC also must submit a simplified filing with securities authorities in the states in which they do business. The City shall only deal with SEC registered investment advisors with $1 billion or more of funds under management.

Investment advisors with assets under management of less than $25 million are regulated by the states in which they do business. In California, such investment advisors register with the California Department of Corporations. It is important to note that the regulatory authorities do not review the credentials or qualifications of advisors, nor do they "approve" or endorse any advisory firm or individual. The role of the regulatory authorities is to enforce the securities laws and not to judge the qualifications of individual advisors.

CDIAC advises that in 1996, the California Attorney General published Opinion 95-807 which addresses utilization of outside investment managers. The opinion states that a City Treasurer can have a contract with an external investment manager. Since there is no specific reference to a section of the California Government Code regarding these services, reference to Opinion 95-807 is sufficient.

XI. SAFEKEEPING AND CUSTODY OF SECURITIES

The Treasurer shall select one or more financial institutions to provide safekeeping and custodial services for the City, in accordance with the provisions of Section 53608 of the California Government Code. A Safekeeping agreement approved by the City shall be executed with each custodian bank prior to utilizing that bank’s related services. To protect against fraud, embezzlement, or potential losses caused by collapse of individual securities dealers, all securities owned by the City shall be held in safekeeping by a third party bank trust department, acting as agent for the City under the terms of a custody agreement or PSA agreement (repurchase agreement collateral). All trades executed by a dealer will settle delivery vs. payment (DVP) through the City's safekeeping agent.

Upon purchase, sale, or maturity of investment securities, standing settlement instructions are provided to the servicing banks and broker dealers involved in the transactions. Adherence to these standing settlement instructions ensures accurate and timely settlement of investment security transactions. Standing settlement instructions are restricted in nature, ensuring investment settlements are with established institutions.

XII. INVESTMENT PROCEDURES MANUAL

The City Treasurer will maintain an Investment Procedures Manual. The purpose of this manual is to provide both current operational details, and a central point of reference, with respect to Treasury Departmental operations associated with the placement, settlement and clearance of all City Investments. The Investment Procedures Manual serves as an operational complement to the City's Statement of Investment Policy, which, per Section XV of this Investment Policy, is to be reviewed on an annual basis by both the City Council and the Budget and Finance Commission. The City's Independent Auditors will also be provided with a current copy of both the Statement of Investment Policy and the Investment Procedures Manual on an annual basis.

XIII. INVESTMENT INTERNAL CONTROLS

The City Treasurer will maintain a system of internal investment controls and segregation of responsibilities of investment functions in order to assure an adequate system of internal control over the investment function.

Internal controls over investment transactions include a separation of duties so no one person is selecting, executing, and monitoring investment transactions. Investment transactions are reviewed each year by the City's external auditor to ensure internal controls, including compliance with policies, procedures, and applicable laws.

XIV. DELEGATION OF AUTHORITY

The Charter of the City of Redondo Beach and the authority granted by City Council assign the responsibility of investing unexpended surplus cash to the City Treasurer. In the absence of the City Treasurer, the authority to execute investment transactions will be restricted to the Deputy City Treasurer, or other City Treasurer designee, after notification to both the City Council and the Budget and Finance Commission.

XV. ANNUAL POLICY REVIEW AND ADOPTION

This Investment Policy shall be reviewed annually by both the Budget and Finance Commission and the City Council to ensure its consistency with the overall objectives of preservation of Principal, Liquidity, and Yield, its relevance to current financial and economic trends, and ability to meet the cash flow operational needs of the City. As part of the City Council's annual review of the City's Statement of Investment Policy, and in accordance with the requirements of the California Government Code, the City Council will adopt the City's Statement of Investment Policy, inclusive of amendments, on an annual basis. To ensure that the Statement of Investment Policy meets continued high standards of legal compliance and reporting excellence, the City Treasurer will submit the Statement of Investment Policy to the California Municipal Treasurer's Association or the Association of Public Treasurers of the United States and Canada for review and recertification no sooner than every three years, nor later than every five years.

XVI. INDEMNIFICATION OF INVESTMENT OFFICIALS

To the fullest extent permitted by law, no investment officer exercising his or her assigned authority with due diligence and prudence, and that acts in accordance with the City's Investment Policy, shall be held personally liable for any individual investment losses or for total Pool losses.

EXHIBIT A

REGISTERED INVESTMENT ADVISOR AND LIST OF QUALIFIED BROKERS FROM WHICH THE CITY MAY PURCHASE INVESTMENTS

Registered Investment Advisor: Rick Phillips, FHN Financial Main Street Advisors

Qualified Brokers: FHN Financial Main Street Advisors maintains an approved list of qualified Broker Dealers, which will be used in transacting business with the City of Redondo Beach.

City Investment Policy Annual Review: August 18, 2020

Budget and Finance Commission Review: November 14, 2019

City Investment Policy Annual Adoption: August 18, 2020

GLOSSARY

Source is from the California Debt and Investment Advisory Commission Local Agency Investment Guidelines.

See attached.

A

ACTIVE MANAGEMENT STRATEGY

Investment strategy based on a manager or a team of managers actively managing a fund's portfolio with the goal of outperforming benchmarks through analytical research, forecasts, and their own judgment and experience.

ACCRETION

The accumulation of value that occurs during the duration or time between a bond's issuance and maturity.

ACCRUED INTEREST

Coupon interest accumulated on a bond or note since the last interest payment or, for a new issue, from the dated date to the date of delivery.

AMORTIZATION OF COSTS

Reconciliation of the purchase price of a security and par value resulting in net interest.

ARBITRAGE

Transactions by which securities are bought and sold in different markets at the same time for the sake of the profit arising from a yield difference in the two markets. The 1986 Tax Reform Act made this practice by municipalities illegal solely as a borrowing tactic, except under certain safe-harbor conditions.

ASSET ALLOCATION

The division of an investment portfolio among different asset categories, such as stocks, bonds, and cash.

ASSET-BACKED SECURITIES

Securities that are supported by pools of assets, such as installment loans or leases, or by pools of revolving lines of credits. Asset-backed securities are structured as trusts in order to perfect a security interest in the underlying assets.

AVERAGE

An arithmetic mean of selected stocks intended to represent the behavior of the market or some component of it.

B

BANK DEPOSITS

Deposits in banks or other depository institutions that may be in the form of demand accounts (checking) or investments in accounts that have a fixed term and negotiated rate of interest.

BANK NOTES

A senior, unsecured, direct obligation of a bank or U. S. branch of a foreign bank.

BANKERS' ACCEPTANCE

A draft or bill or exchange accepted by a bank or trust company. The accepting institution, as well as the issuer, guarantees payment of the bill.

BASIS POINTS

Refers to the yield on bonds. Each percentage point of yield in bonds equals 100 basis points (1/100% or 0.01%). If a bond yield changes from 7.25% to 7.39%, that is a rate of 14 basis points.

BENCHMARK

A passive index used to compare the performance, relative to risk and return, of an investor's portfolio.

BOND PROCEEDS

The money paid to the issuer by the purchaser or underwriter of a new issue of municipal securities. These moneys are used to finance the project or purpose for which the securities were issued and to pay certain costs of issuance as may be provided in the bond contract.

BONDS

A debt obligation of a firm or public entity. A bond represents the agreement to repay the debt in principal and, typically, in interest on the principal.

BOOK RETURN

Book return includes interest, amortization/accretion of premiums/discounts, realized gains and losses, over a given period of time.

BOOK VALUE

The value at which an asset is carried on a balance sheet.

BROKER

A person or firm that acts as an intermediary by purchasing and selling securities for others rather than for its own account.

BUY AND HOLD STRATEGY

A strategy based on holding all securities until maturity, regardless of fluctuations in the market.

C

CALL OPTION

The terms of the bond contract giving the issuer the right to redeem or call an outstanding issue of bonds prior to its stated date of maturity.

CALL RISK

The risk to a bondholder that the bond issuer will exercise a callable bond feature and redeem the issue prior to maturity.

CALLABLE SECURITIES

An investment security that contains an option allowing the issuer to retire the security prior to its final maturity date.

CASH FLOW

A comparison of cash receipts (revenues) to required payments (debt service, operating expenses, etc.).

CERTIFICATE OF DEPOSIT

A short-term, secured deposit in a financial institution that usually returns principal and interest to the lender at the end of the loan period. Certificates of Deposit (CDs) differ in terms of collateralization and marketability. Those appropriate to public agency investing include:

Negotiable Certificates of Deposit

Generally, short-term debt instrument that usually pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. The majority of negotiable CDs mature within six months while the average maturity is two weeks. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor). Negotiable CDs are insured by FDIC up to $250,000, but they are not collateralized beyond that amount.

Non-Negotiable Certificates of Deposit

CDs that carry a penalty if redeemed prior to maturity. A secondary market does exist for non-negotiable CDs, but redemption includes a transaction cost that reduces returns to the investor. Non-negotiable CDs issued by banks and savings and loans are insured by the Federal Deposit Insurance Corporation up to the amount of $250,000, including principal and interest. Amounts deposited above this amount may be secured with other forms of collateral through an agreement between the investor and the issuer. Collateral may include other securities including Treasuries or agency securities such as those issued by the Federal National Mortgage Association.

CDARS (CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM)

A private CD placement service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than $250,000 each, so that FDIC coverage is maintained.

CD PLACEMENT SERVICE

A service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution while still maintaining FDIC insurance coverage. See "CDARS".

COLLATERALIZATION OF DEPOSITS

Process by which a bank or financial institution pledges securities, or other deposits for the purpose of securing the repayment of deposited funds.

COMMERCIAL PAPER

An unsecured short-term promissory note issued by corporations or municipalities, with maturities ranging from 2 to 270 days.

CONVEXITY

A measure of the price sensitivity of a fixed income security to changes in interest rates. Convexity is influenced by such factors as the coupon rate, maturity, and any call options that may or may not exist. Prices rise at increasing rates as yields fall and prices decline at decreasing rates as yields rise.

CORPORATE NOTES AND BONDS

Debt instruments, typically unsecured, issued by corporations, with original maturities in most cases greater than one year and less than ten years.

COUNTY POOLED INVESTMENT FUNDS

The aggregate of all funds from public agencies placed in the custody of the county treasurer or chief finance officer for investment and reinvestment.

COUPON

The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value; a certificate attached to a bond evidencing interest due on a payment date.

CREDIT RATING

Various alphabetical and numerical designations used by credit rating or nationally recognized statistical rating organizations (NRSROs), institutional investors, Wall Street underwriters, and commercial rating companies to give relative indications of bond and note creditworthiness.

Long-term Ratings

The three most commonly used NRSROs are Standard & Poor's, Fitch Ratings, and Moody's. Standard & Poor's and Fitch Ratings use the same system, starting with their high¬est rating, of AAA, AA, A, BBB, BB, B, CCC, CC, C, and D for default. Moody's Investors Service uses Aaa, Aa, A, Baa, Ba, B, Caa, and Ca. Each of the services use pluses (+), minuses (-), or numerical modifiers to indicate steps within each category. The S&P ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. The top four letter categories are considered investment grade ratings.

Short-term Ratings

Standard & Poor's short-term ratings system is A-1+, A-3, B, C, and / for default. Fitch Ratings use F1+, F3, B, C, and / for default. Finally, Moody's uses P1 and P3, anything below P3 is considered not prime.

CREDIT RISK

The chance that an issuer will be unable to make scheduled payments of interest and principal on an outstanding obligation. Another concern for investors is that the market's perception of an issuer/borrower's credit will cause the market value of a security to fall, even if default is not expected.

CUSIP NUMBER

The Committee on Uniform Security Information Procedures (CUSIP) Number refers to a security's identification number assigned to each publicly traded security by the CUSIP Service Bureau operated by Standard & Poor's for the American Bankers Association. The CUSIP Number is a nine-character identifier unique to the issuer, the specific issue and the maturity, if applicable (the first six characters identifying the issuer, the next two identifying the security and the last digit providing a check digit to validate the accuracy of the preceding CUSIP number).

CUSTODIAN

A bank or other financial institution that keeps custody of stock certificates and other assets.

D

DEALER

Someone who acts as a principal in all transactions, including underwriting, buying, and selling securities, including from his/her own account.

DEFAULT RISK

The risk that issuers/borrowers will be unable to make the required payments on their debt obligations.

DEFEASED BOND ISSUES

Issues that have sufficient money to retire outstanding debt when due so that the agency is released from the contracts and covenants in the bond document.

DELIVERY VS. PAYMENT (DVP)

The payment of cash for securities as they are delivered and accepted for settlement.

DERIVATIVE

Securities that are based on, or derived from, some underlying asset, reference date, or index.

DISCOUNT

Discount means the difference between the par value of a security and the cost of the security, when the cost is below par. Investors purchase securities at a discount when return to the investor (yield) is higher than the stated coupon (interest rate) on the investment.

DISCOUNT RATE

The interest rate used in discounted cash flow (DCF) analysis to determine the present value of future cash flows. The discount rate in DCF analysis takes into account not just the time value of money, but also the risk or uncertainty of future cash flows; the greater the uncertainty of future cash flows, the higher the discount rate.

DIVERSIFICATION

The allocation of different types of assets in a portfolio to mitigate risks and improve overall portfolio performance.

DURATION

A measure of the timing of the cash flows to be received from a security that provides the foundation for a measure of the interest rate sensitivity of a bond. Duration is a volatility measure and represents the approximate percentage change in price divided by the percentage change in interest rates. A high duration measure indicates that for a given level of movement in interest rates, prices of securities will vary considerably.

E

EFFECTIVE DURATION

Duration measures the weighted average of the present value of the cash flows of a fixed-income investment. Effective duration measures the price sensitivity of fixed-income investments, especially for those with embedded option features such as call options. As yields rise, the effective duration of a callable investment rises to reflect the fact that it has become less likely to be called. The more rates rise, the longer the effective duration will become, approaching the duration to maturity. The converse is true in a declining interest rate environment (that is, the more rates fall, the shorter the effective duration will become, approaching the duration to call). For securities without an embedded option, the duration to call, maturity, and effective duration are all the same. The calculation for effective duration is complicated and involves averaging the duration under a simulation of many possible interest rate scenarios in the future.

EVENT RISK

The risk associated with a changing portfolio value due to a market event causing swings in market prices and/or spreads.

EXTENDABLE NOTES

Securities with maturity dates that can be extended by mutual agreement between the issuer and investor. When investing in these types of securities, the maturity date plus the stated extendable option must not exceed the time frames that are allowed in California Government Code or the investment policy for the investment type.

F

FIDUCIARY

An individual who holds something in trust for another and bears liability for its safekeeping.

FIRST TIER SECURITIES

Securities that have received short-term debt ratings in the highest category from the requisite nationally recognized statistical-rating organizations (NRSROs), or are comparable unrated securities, or are issued by money market funds, or government securities. [See SEC Rules: Paragraph (A)(12) of rule 2A-7.]

FLOATING RATE SECURITY

A security that has a variable or "floating" interest rate.

G

GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB)

A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

GOVERNMENT SPONSORED ENTERPRISES (GSE)

Privately held corporations with public purposes created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy. Securities issued by GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. For this reason, these securities will offer a yield premium over Treasuries.

GUARANTEED INVESTMENT CONTRACT (GIC)

An agreement acknowledging receipt of funds for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

I

IRMA

An independent registered municipal advisor (IRMA) is registered as a municipal advisor with the SEC and MSRB and has a fiduciary duty to the issuer(s) that he/she advises on the issuance of municipal securities and investment of the proceeds of issued debt.

IRMA EXEMPTION

Pursuant to the Municipal Advisor Rule (MA Rule), underwriters may provide advice to municipal issuers only where certain exceptions or exemptions apply. The Independent Registered Municipal Advisor Exemption (IRMA Exemption) applies where: (1) the issuer has retained an IRMA that is not recently associated (within the last two years of seeking to use the exemption) with the underwriter, (2) the underwriter receives a written notice from the issuer that they are represented by the IRMA and will rely on their advice, and the underwriter can reasonably rely on that notice, and (3) the underwriter provides a written notice to the issuer and IRMA stating that the underwriter is not a municipal advisor and has no fiduciary duty to the issuer, and the issuer must have adequate time to review that notice.

INDEX

An index is an indicator that is published on a periodic basis that shows the estimated price and/or yield levels for various groups of securities.

INTEREST

The amount a borrower pays to a lender for the use of his or her money.

INTEREST RATE RISK

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, spread between two rates, shape of the yield curve, or any other interest rate relationship.

INVESTMENT AGREEMENTS

Investment agreements are contracts with respect to funds deposited by an investor. Investment agreements are often separated into those offered by banks and those offered by insurance companies. In the former case, they are sometimes referred to as "bank investment contracts."

INVESTMENT OVERSIGHT COMMITTEE

A committee of three to eleven members formed under Section 27131 to monitor and review a county's investment policy by causing an annual audit and discussing its finding at an open meeting. Although cities and other local agencies are not required to compose an investment oversight committee, the State Legislature has declared that all local agencies "should participate in reviewing the policies that guide the investment of those funds."

INSTITUTIONAL ACCOUNT

As defined by the Financial Industry Regulatory Authority (FINRA), an institutional account includes one of the following: (1) a bank, savings and loan association, insurance company or registered investment company; (2) an investment adviser registered either with the SEC under Section 203 of the Investment Advisers Act or with a state securities commission (or any agency or office performing like functions); or (3) any other person (whether a natural person, corporation, partnership, trust or otherwise) with total assets of at least $50 million.

L

LIBOR

Acronym for "London Interbank Offered Rate," which represents the average rate at which a leading bank can obtain unsecured funding in the London interbank market. LIBOR serves as a benchmark for various interest rates. Obligations of parties to such transactions are typically expressed as a spread to LIBOR.

LIQUIDITY

The measure of the ability to convert an instrument to cash on a given date at full face or par value.

LIQUIDITY RISK

The risk that a security, sold prior to maturity, will be sold at a loss of value. For a local agency, the liquidity risk of an individual investment may not be as critical as how the overall liquidity of the portfolio allows the agency to meet its cash needs.

LOCAL AGENCY INVESTMENT FUND

A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP)

Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

M

MARKET RISK

The chance that the value of a security will decline as interest rates rise. In general, as interest rates fall, prices of fixed income securities rise. Similarly, as interest rates rise, prices fall. Market risk also is referred to as systematic risk or risk that affects all securities within an asset class similarly.

MARKET VALUE

The price at which a security is trading and presumably could be purchased or sold at a particular point in time.

MATURITY

The date on which the principal or stated value of an investment becomes due and payable.

MEDIUM-TERM NOTE

Corporate or depository institution debt securities meeting certain minimum quality standards (as specified in the California Government Code) with a remaining maturity of five years or less.

MONEY MARKET MUTUAL FUNDS

MMF's are mutual funds that invest exclusively in short-term money market instruments. MMF's seek the preservation of capital as a primary goal while maintaining a high degree of liquidity and providing income representative of the market for short-term investments.

MORTGAGE BACKED SECURITIES

Mortgage-backed securities (MBS) are created when a mortgagee or a purchaser of residential real estate mortgages creates a pool of mortgages and markets undivided interests or participations in the pool. MBS owners receive a prorata share of the interest and principal cash flows (net of fees) that are "passed through" from the pool of mortgages. MBS are complex securities whose cash flow is determined by the characteristics of the mortgages that are pooled together. Investors in MBS face prepayment risk associated with the option of the underlying mortgagors to pre-pay or payoff their mortgage. Most MBS are issued and/or guaranteed by federal agencies and instrumentalities (e.g., Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC)).

MORTGAGE PASS-THROUGH OBLIGATIONS

Securities that are created when residential mortgages (or other mortgages) are pooled together and undivided interests or participations in the stream of revenues associated with the mortgages are sold.

MUNICIPAL ADVISOR RULE (MA RULE)

A regulation of non-dealer "municipal advisors" such as financial advisors, swap advisors, GIC brokers, etc. In addition, the rule pertains to banks and broker dealers acting as municipal advisors. Municipal advisors have a fiduciary responsibility to the government agency receiving their services and they must register with the Securities Exchange Commission (SEC). Municipal finance professionals that do not have a fiduciary duty to issuers cannot provide advice to governments unless certain exemptions are met. The SEC has published a list of frequently asked questions: www.sec.gov/info/municipal/mun-advisors-faqs.pdf.

MUNICIPAL NOTES, BONDS, AND OTHER OBLIGATIONS

Obligations issued by state and local governments to finance capital and operating expenses.

MUTUAL FUNDS

An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.

N

NET ASSET VALUE

Net asset value (NAV) is a term used in the mutual fund industry to determine the average price per share of a pool or mutual fund. How this measure varies over time provides information on whether the pool is stable or variable. NAV is the market value of all securities in a mutual fund, less the value of the fund's liabilities, divided by the number of shares in the fund outstanding. Shares of mutual funds are purchased at the fund's offered NAV.

NET PRESENT VALUE

An amount that equates future cash flows with their value in present terms.

NEW ISSUE

Securities sold during the initial distribution of an issue in a primary offering by the underwriter or underwriting syndicate.

NOTE

A written promise to pay a specified amount to a certain entity on demand or on a specified date. Usually bearing a short-term maturity of a year or less (though longer maturities are issued—see "Medium-Term Note").

O

OPTIONS

An option is a contract that gives the buyer the right to buy or sell an obligation at a specified price for a specified time. Exchange Traded Options are standardized option contracts that are actively traded on the Chicago Board of Exchange on a daily basis whereas Over-the-Counter Options are traded directly between the buyer and seller at agreed upon prices and conditions (the former type of option is therefore more liquid than the latter).

P

PAR AMOUNT OR PAR VALUE

The principal amount of a note or bond which must be paid at maturity. Par, also referred to as the "face amount" of a security, is the principal value stated on the face of the security. A par bond is one sold at a price of 100 percent of its principal amount.

PLACEMENT SERVICE CERTIFICATES OF DEPOSIT

Certificates of deposit placed with a private sector entity that assists in the placement of certificates of deposit with eligible financial institutions located in the United States.

PLACEMENT SERVICE DEPOSIT

Deposits at depository institutions placed by a private sector placement service entity.

PORTFOLIO

Combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

PREMIUM

Premium means the difference between the par value of a security and the cost of the security, when the cost is above par. Investors pay a premium to purchase a security when the return to the investor (yield) is lower than the stated coupon (interest rate) on the investment.

PRICE

Price is the amount of monetary consideration required by a willing seller and a willing buyer to sell an investment on a particular date.

PRINCIPAL

The face value or par value of a debt instrument, or the amount of capital invested in a given security.

PROSPECTUS

A disclosure document that must be provided to any prospective purchaser of a new securities offering registered with the SEC that typically includes information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements (also known as an "official statement").

PRUDENT INVESTOR STANDARD

A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is being met is if a prudent person acting in such a situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

R

REINVESTMENT RISK

The risk that interest rates may be lower than the yield on a fixed income security when the investor seeks to reinvest interest income or repaid principal from the security.

REPURCHASE AGREEMENTS

An agreement of one party (for example, a financial institution) to sell securities to a second party (such as a local agency) and simultaneous agreement by the first party to repurchase the securities at a specified price from the second party on demand or at a specified date.

REVERSE REPURCHASE AGREEMENTS

An agreement of one party (for example, a financial institution) to purchase securities at a specified price from a second party (such as a public agency) and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

RISK

The uncertainty of maintaining the principal or interest associated with an investment due to a variety of factors.

RULE G-37 OF THE MUNICIPAL SECURITIES RULEMAKING BOARD

Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

S

SAFEKEEPING SERVICE

Offers storage and protection of assets provided by an institution serving as an agent.

SAFETY

In the context of investing public funds, safety relates to preserving the principal of an investment in an investment portfolio; local agencies address the concerns of safety by controlling exposure to risks.

SECURITIES AND EXCHANGE COMMISSION (SEC)

The federal agency responsible for supervising and regulating the securities industry.

SECURITIES LENDING AGREEMENT

An agreement of one party (for example, a local agency) to borrow securities at a specified price from a second party (for example, another local agency) with a simultaneous agreement by the first party to return the security at a specified price to the second party on demand or at a specified date. These agreements generally are collateralized and involve a third party custodian to hold the securities and collateral. Economically similar to reverse repurchase agreement.

SUPRANATIONAL INSTITUTIONS

International institutions formed by two or more governments that transcend boundaries to pursue mutually beneficial economic or social goals. There are three supranational institutions that issue obligations that are eligible investments for California local agencies: the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB).

T

TAX AND REVENUE ANTICIPATION NOTES (TRANS)

Notes issued in anticipation of receiving tax proceeds or other revenues at a future date.

TOTAL RETURN

Total return includes interest, realized gains and losses, and unrealized gains and losses over a given period of time.

TRUSTEE, TRUST COMPANY OR TRUST DEPARTMENT OF A BANK

A financial institution with powers to act in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

U

UNDERWRITER

A dealer that purchases a new issue of municipal securities for resale.

U.S. TREASURY OBLIGATIONS

Debt obligations of the U.S. Government sold by the Treasury Department in the forms of bills, notes, and bonds. Bills are short-term obligations that mature in one year or less and are sold at a discount. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more.

W

WEIGHTED AVERAGE MATURITY (WAM)

The average maturity of all the securities that comprise a portfolio, typically expressed in days or years.

Y

YIELD

The current rate of return on an investment security generally expressed as a percentage of the securities current price.

YIELD CURVE

A graphic representation that shows the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

YIELD-TO-CALL

The rate of return to the investor earned from payments of principal and interest, with interest compounded semi-annually at the stated yield when the security is redeemed on a specified call date. In addition, if the security is redeemed at a premium call price, the amount of the premium is also reflected in the yield.

YIELD-TO-MATURITY

The rate of return to the investor earned from payments of principal and interest, with interest compounded semi-annually at the stated yield as long as the security remains outstanding until the maturity date.

YIELD-TO-WORST

For a given dollar price on a municipal security, the lowest of the yield calculated to the pricing call, par option or maturity.

Z

ZERO-COUPON BOND

A bond on which interest is not payable until maturity (or earlier redemption), but compounds periodically to accumulate to a stated maturity amount. Zero-interest bonds are typically issued at a discount and repaid at par upon maturity.